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TAGS: PINR, BR, VE, PA
SUBJECT: (U) INR INTELLIGENCE BRIEFS

CLASSIFIED BY: [redacted] DEPARTMENT OF
STATE. REASON: 1.5(C)(D). B2

1. (U) THE FOLLOWING INR INTELLIGENCE BRIEFS ARE PROVIDED FOR YOUR INFORMATION AND COMMENT.

(U) BRAZIL: CONGRESS FALLS OFF THE WAGON

2. (C) THE CARDOSO ADMINISTRATION'S STRING OF SUCCESSFUL VOTES ON ITS FISCAL REFORM PACKAGE CAME TO A SURPRISING

HALT ON DECEMBER 2 WHEN CONGRESS REJECTED A MEASURE TO INCREASE SOCIAL SECURITY PAYMENTS BY BRAZIL'S MASSIVE CIVIL SERVICE. THE REFORM, WHICH WAS TO ACCOUNT FOR $2 BILLION OF A TOTAL OF $23 BILLION IN PLANNED CUTS FROM NEXT YEAR'S BUDGET, WILL BE RESUBMITTED TO THE NEW CONGRESS NEXT YEAR. MEANWHILE, THE ADMINISTRATION WILL BE FORCED TO REVISIT PLANNED CUTS IN PUBLIC SPENDING TO MAKE UP FOR THE LOSS AND MAY REVIVE DISCUSSION OF A GASOLINE TAX.

3. (C) THE ADMINISTRATION SPENT THE DAY NEGOTIATING CONCESSIONS THAT LIMITED THE EFFECTS OF THE PROPOSED REFORM ON THE POOREST OF RETIRED CIVIL SERVANTS. IN THE END, THE POLITICAL ATMOSPHERE WAS POISONED BY RURAL MEMBERS OF CONGRESS OFFENDED BY A PROVISION IN AN UPCOMING BILL TO DOUBLE SOCIAL SECURITY PAYMENTS BY AGRICULTURAL PRODUCERS, WHICH LED TO A COLLAPSE OF DISCIPLINE AMONG CARDOSO'S PARTY

COALITION. NEARLY HALF OF CARDOSO'S OWN PARTY FAILED TO VOTE FOR THE INCREASE IN CIVIL SERVICE SOCIAL SECURITY PAYNENTS.

4. (C) EFFECT ON FINANCIAL MARKETS. THOUGH SUCH LEGISLATIVE SETBACKS ARE TO BE EXPECTED FROM THE NOTORIOUSLY CHAOTIC AND UNRELIABLE CONGRESS, THE VOTE RESOUNDED IN WORLD FINANCIAL MARKETS ON DECEMBER 3, UPSETTING THE MOOD OF GUARDED OPTIMISM THAT HAD COME TO SURROUND BRAZIL'S CHANCES OF WEATHERING THE ECONOMIC CRISIS. THE SAO PAULO STOCK MARKET DROPPED 8.8 PERCENT. THE ADMINISTRATION NOTED INMEDIATELY AFTER THE VOTE THAT THE MEASURE'S FAILURE WOULD THREATEN THE DECLINE IN INTEREST RATES, WHICH IS CRITICAL TO REDUCING THE DEFICIT AND AMELIORATING THE MAGNITUDE OF BRAZIL'S EXPECTED ECONOMIC CONTRACTION IN 1999. THOUGH BRAZILIAN RESERVES REMAINED RELATIVELY STABLE THROUGHOUT NOVEMBER, THIS FIRST SETBACK IN THE REFORM PROCESS MAY SPARK RENEWED PRESSURE ON THE CURRENCY AND EITHER STOP OR REVERSE THE RECENT DECLINE IN INTEREST RATES.

5. (C) IMF ACTS. THE FUND'S GOVERNING BOARD ON DECEMBER 2 VOTED TO RELEASE THE FIRST TRANCHE OF BRAZIL'S BAILOUT PACKAGE, TOTALING $5.3 BILLION. THE UNFORTUNATE COINCIDENCE OF THE TWO VOTES WILL EVOKE MEMORIES OF BRAZIL'S HISTORIC INABILITY TO LIVE UP TO AGREEMENTS WITH THE IMF, LEADING PUNDITS TO QUESTION THE WISDOM OF PROVIDING A BAILOUT BEFORE REFORMS HAVE BEEN COMPLETED.
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(U) PARAGUAY: BETWEEN A ROCK AND A HARD PLACE

6. (C/NF) PARAGUAY'S PRESIDENT CUBAS WILL BE HARD PRESSED TO KEEP HIS FORMER RUNNING MATE AND ARMY CONMANDER, LINO OVIEDO, OUT OF JAIL AFTER THE SUPREME COURT ON DECEMBER 2 STRUCK DOWN A CUBAS DECREE FREEING OVIEDO. THERE IS NO REASON TO BELIEVE CUBAS WILL ABANDON OVIEDO TO HIS LEGAL FATE.

7. (C/NF) THE COURT HAS ORDERED OVIEDO TO RETURN TO PRISON TO SERVE A 10-YEAR SENTENCE FOR HIS APRIL 1996 COUP AGAINST THEN PRESIDENT WASMOSY; IT HAD PREVIOUSLY DECLARED INVALID THE SEPTEMBER RULING BY A MILITARY TRIBUNAL CLEARING OVIEDO OF COUP CHARGES.

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(U) VENEZUELA: THE DEVIL'S NOT IN THE DETAILS
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9. (U) FAILED COUP-LEADER AND POPULIST HUGO CHAVEZ IS POISED TO WIN VENEZUELA'S DECEMBER 6 ELECTION, DESPITE BUSINESSMAN HENRIQUE SALAS ROEMER'S EFFORTS TO EXPLOIT AN ATMOSPHERE OF FEAR AND POTENTIAL VIOLENCE.

10. (U) CHAVEZ'S VAGUE AND MESSIANIC MESSAGE INSPIRES VENEZUELA'S POOR, WHO BLAME THEIR MISERY ON THE CORRUPT MACHINATIONS OF BUSINESS AND POLITICAL ELITES. THOUGH HE HAS RAISED EXPECTATIONS THAT WILL BE DIFFICULT FOR ANY PRESIDENT TO MEET, HIS POLITICAL AND ECONOMIC PLATFORM IS AMBIGUOUS AND SHIFTING AT BEST. THIS APPROACH DOES NOT HURT HIS POPULAR APPEAL BECAUSE SUPPORTERS ARE INTERESTED NOT IN DETAILS BUT IN CHAVEZ AS THE SYMBOL OF A DECISIVE BREAK WITH A CLOSED, CORRUPT POLITICAL ESTABLISHMENT.

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12. (U) THIS SAME AMBIGUITY HAS VIRTUALLY BROUGHT TRADE AND INVESTMENT TO A STANDSTILL. POTENTIAL INVESTORS ARE WAITING UNTIL CHAVEZ ANNOUNCES HIS ECONOMIC TEAM AND OFFERS

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DETAILS ON HIS ECONOMIC PLAN.
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(U) VENEZUELA: TOO CLOSE FOR COMFORT?

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(U) VENEZUELA: THEN THERE WERE TWO

17. (C) WITH VENEZUELA'S DECEMBER 6 ELECTIONS FAST APPROACHING, THE PRESIDENTIAL RACE HAS FINALLY BECOME A TWO-HORSE AFFAIR. THIS TURN OF EVENTS IMPROVES THE PROSPECTS OF INDEPENDENT BUSINESSMAN HENRIQUE SALAS ROEMER BUT MAY COME TOO LATE TO GAIN HIM A VICTORY.

18. (C) THE NEAR-UNANIMOUS DECISION ON NOVEMBER 26 BY THE AUTHORITIES OF VENEZUELA'S LARGEST TRADITIONAL PARTY, ACCION DEMOCRATICA (AD), TO DUMP CANDIDATE AND PARTY CAUDILLO LUIS ALFARO UCERO IN FAVOR OF SALAS ROEMER HAS MADE THE RACE A DUEL BETWEEN SALAS ROEMER AND FRONT-RUNNER HUGO CHAVEZ; THE THIRD CANDIDATE, IRENE SAEZ, ON NOVEMBER 30 REPORTEDLY WITHDREW FROM THE RACE. [redacted]

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19. (C) THE GAP BETWEEN CHAVEZ AND SALAS ROEMER IS MEASURED VARIOUSLY AT 6-12 POINTS, WITH POLLS MOST CHARITABLE TO SALAS ROEMER SHOWING HIM BEHIND AT ABOUT 46-40 PERCENT. SALAS ROEMER HAS A CHANCE, BUT TO WIN HE MUST ATTRACT NEARLY ALL THE VOTES CURRENTLY IN THE AD-ALFARO COLUMN. THAT TASK MAY BE COMPLICATED BY ALFARO'S REFUSAL FORMALLY TO ABANDON THE BATTLE. [redacted]

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ALBRIGHT